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THE MARKET MEMO

DEAR BEAVERS WEALTH MANAGEMENT FAMILY & FRIENDS

As in previous months, inflation and the Federal Reserve's (the Fed's) response to it drove the market's major currents in September as investors concluded that a deeper recession in 2023 may be the necessary, if painful, antidote to inflation.

As a result, the S&P 500 recorded a 9.34% loss for the month, in line with the other major indices. Fixed income investments, however, are displaying uncommon levels of opportunity amid the volatility.

Recession is a word that evokes a lot of dread, especially if one uses 2020 or 2008 as their recessional archetype, and not 2001 or 1990. But while we believe that we can expect more months of volatility, and more sequels in this continuing market storyline to come, we think a 2023 recession should be relatively mild, historically speaking, as the labor market remains strong and consumer confidence edges up with slowly abating prices.

Looking back to September, the Fed raised its baseline interest rate by 75 basis points and the expectation is that it will follow up with an additional 100 basis points by the end of the year, 100 basis points higher than was generally expected. While the impact of this could be seen throughout the economy, the real estate sector showed its particular vulnerability to higher interest rates as residential housing investments took a large step back. Interest rates on 30-year mortgages now exceed 6.5% for the first time since 2008.

All this said, the U.S. is well-positioned compared to much of the world:

- The euro, yen and pound are notably weak against the dollar, lowering the price of America's imports and making its exports a tougher sell. In dollar-priced commodities, like oil, this causes issues for non-U.S. buyers.
- The United Kingdom welcomed its fourth administration in 12 years as the pound collapsed against the dollar, and investors have shown little faith in the government's growth-focused plan that puts itself at odds with the Bank of England's inflation strategy.
- A worst-case scenario for gas in Europe has been avoided but, long term, the economic zone has a dire need to create energy security in light of Russian relations.

The bottom line

There's no denying the markets are an uncomfortable place to be these days. Global-scale events, war, supply chain weakness – it's a situation that requires the sterner stuff of a long-term, risk-adjusted investor. In the enthusiasm of a bull market, it can be hard to see the value of more prudent approaches. These are the moments that make their value clear.

We will continue to navigate these storms together, keeping an eye on your goals, timelines and tolerance for risk. If you have any questions, please do not hesitate to reach out. As always, We remain grateful for your continuing trust. Know that your well-being remains our top priority.

Sincerely,

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